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Technology and Financial Inclusion for MSMEs and Rural Communities in India: A Socio-Economic Perspective Towards Viksit Bharat 2047

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Abstract

Financial Technology (FinTech) has become a crucial tool in financing financial inclusion, especially for Micro, Small and Medium Enterprises (MSMEs) and for the rural population. Although there has been progress in financial inclusion in terms of banking penetration, access to credit at affordable prices, digital financial services and institutional finance remains uneven among geographical and socio-economic groups. There are opportunities to lower financial barriers and boost entrepreneurship through digital payments, mobile banking, AI, digital lending platforms and digital public infrastructure. But the gains from technological progress are subject to income security, education, occupational traits, gender, and household structure and digital skills.

This review article highlights the linkage between technological innovation and financial inclusion in India especially for MSMEs, rural households and women entrepreneurs. It combines the theoretical frameworks of Financial Intermediation Theory (FIT), Technology Acceptance Model (TAM), and Diffusion of Innovation Theory (DoI) with existing research on digital payments and financial behaviour of households. The research work of Jagannarayan (2023, 2024, 2025) on the preferences and risks of digital payments, rural–urban expenditure differences, gender-based household financial decision making in Maharashtra has been highlighted in particular.

The review emphasises that the use of payment digitalisation can enhance transaction efficiency and financial transparency, and that a digital history of transactions could be used to enable

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access to institutional credit. But, the lack of meaningful financial participation is still prevented by digital exclusion, cyber security concerns, financial illiteracy, gender inequalities and algorithmic discrimination. Access to digital platforms alone is not enough to measure financial inclusion and should also be measured by the quality, cost and economic results of digital platform utilization. It suggests an integrated effort through technology, financial education, digital-lending responsible practices and gender-sensitive policies to boost MSME development and resilience of rural economy. An approach like this can help to achieve inclusive economic growth and the vision of Viksit Bharat 2047.

Keywords: FinTech, Financial Inclusion, MSMEs, Rural Communities, Digital Payments, Household Financial Behaviour, Digital Lending, Gender and Finance, Viksit Bharat 2047.

1. Introduction

Financial inclusion is a key precondition for sustainable and equitable economic development. It includes making financial services available to individuals, households and enterprises at affordable and appropriate prices and quality, such as investment facilities, payment systems, insurance, credit and savings services. Financial inclusion is significant in India where a significant share of economic activity is engaged in microenterprises, informal businesses, agriculture, and rural livelihood systems.

Micro, Small and Medium Enterprises (MSMEs) play a significant role in employment generation, entrepreneurship, industrial production and regional development. But most small businesses are still suffering from access to institutional credit due to lack of collateral, poor financial records, irregular cash flows and lack of information symmetry. The rural households, small traders, agricultural entrepreneurs, and female entrepreneurs face the same difficulties.

Advancements in Financial Technology (FinTech) have presented new opportunities to overcome these restrictions. Unified Payments Interface (UPI), mobile banking, digital lending, electronic Know Your Customer (e-KYC), and artificial intelligence and data driven financial services have completely revolutionized the delivery of financial products. These developments

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can help lower transaction costs, enhance financial access and facilitate formalisation of small businesses. However, having the technology does not necessarily bring financial inclusion. Adopting digital financial services is influenced by income, education, occupation, gender, awareness and access to technology infrastructure.

An important socio-economic dimension needed to view the relationship is the research on digital payment and digital consumption of households done by Jagannarayan. She is researching the determinants of financial and consumption behavior, including the preferences of digital payment methods, income, gender and education and household features. The contributions provide a valuable starting point in considering more broadly the developmental consequences of the use of fintech.

2. Objectives of the Study

The review has the following objectives:

1. To explore the potential of FinTech in making financial services more inclusive to the MSMEs and the rural population in India.
2. To discuss the role of digital payment systems and digital lending platforms in bringing financial services to the masses.
3. To include the research work of Nandini Jagannarayan in the area of Digital payments, Household consumption and Socio-economic financial behaviour.
4. To understand the impact of gender, education, occupation and income on digital financial participation.
5. To find out the technological and institutional hurdles in inclusive financial development.
6. To suggest strategies for strengthening fintech-enabled MSME and rural development towards Viksit Bharat 2047.

3. Research Methodology

The study is done in a narrative and thematic review approach using secondary sources. It reviews research and academic work, institutional reports and policy documents on digital payments, financial inclusion, MSME finance and rural development.

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The review includes the research work done by Nandini Jagannarayan in the following areas:

- Risk and preference for digital payments.
- Household consumption behaviour and FinTech.
- Household expenditure differences between the countryside and the city.
- Household decision-making regarding sources of household finances by gender.
- The socio-economic factors affecting the household consumption in Maharashtra.

Institutional sources include publications of the Reserve Bank of India, Government of India and World Bank. The literature has been organized on themes to find the relationship between technological adoption, socio-economic characteristics and financial inclusion.

The study is conceptual and is not a new study of primary data. Household expenditure studies are used to draw conclusions about socio-economic financial behaviour rather than as a direct reflection of the accessibility of MSME credit or of the adoption of fintech.

4. Review of Literature

4.1 Financial Inclusion and Technology

Financial development has been identified as playing a crucial role in income inequality and economic opportunities by Beck, Demirgüç-Kunt and Levine (2007). Their results offer a theoretical basis to grasp the impact of formal financial institutions on the lives of people who are not served.

The Global Findex Database by Demirgüç-Kunt et al. (2022) showed that the importance of digital financial services and electronic payments in enhancing formal finance's impact on access increased over time. But financial inclusion is not limited to merely holding an account, it also needs to be used regularly and be able to access financial services.

Davis (1989) through the Technology Acceptance Model, was able to find that perceived usefulness and perceived ease of use are both factors that influence the adoption of technology. The framework is especially applicable in the context of digital banking in rural areas, where

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convenience, access and trust factors are important determinants of the acceptance of digital financial products.

Diffusion of Innovation Theory (DOIT) was used by Rogers (2003) to describe the process of the spread of technological innovations across society. Accepting digital payments among small traders and rural entrepreneurs relies on affordability, compatibility, and ease of use along with apparent benefits. In this section, Nandini Jagannarayan's research contributions are highlighted.Nandini Jagannarayan's research contributions are highlighted in 4.2.

The research enhances the understanding of the India-specific socio-economic context of digital financial services and its link with household economic behaviour from the Indian perspective, as provided by Jagannarayan. In this study, Jagannarayana & Uma (2023) sought to investigate the reasons for preferences and risks of digital payment modes during and after COVID-19 era.

The objective of this study is to investigate the altering preference of digital payment systems and perceived risk of electronic transactions. It is cognizant of the increasing adoption of cashless payment systems and the issues that go with digital financial transactions.

This study is important for the present review as the adoption of digital payment requires consumers' confidence, convenience and perceived security in addition to technology availability. These factors affect MSMEs and rural merchants' willingness to accept digital payments and embrace electronic transactions in their businesses.

Uma and Jagannarayan (2023): FinTech Innovation (Digital Payment) Promotes Household Consumption: Keynesian Approach During and Before COVID-19 Pandemic – A Case of Chembur, Mumbai

This study focuses on the relationship between the innovation of digital payment and income and consumption behaviour of the household in the Chembur region of Mumbai. The research uses the Keynesian consumption approach, which is based on a sample of 200 households, and compares pre-pandemic and pandemic situations.

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Before the outbreak of COVID-19, the Marginal Propensity to Consume (MPC) is reported at 0.42 and during the COVID pandemic at 0.38. The results show the effect of economic uncertainty and changing economic conditions on the consumption behavior of households.

It is important for the present article because of its relationship with the innovation of digital payment and its relationship with consumption behaviour and the functioning of the household economy. In spite of not being a study of MSME financing itself, it provides relevant evidence on the relationship between income and economic activity and the digital financial infrastructure.

Jagannarayan, P., Prasuna, P. (2024): Mapping Maharashtra's Money Moves – Household Expenditure Patterns in Rural and Urban Contexts.

The present study explores the differences between rural and urban household expenditure in Amravati district between 2019 and 2021 based on the Consumer Pyramids Household Survey (CPHS). The results reveal income and household size as regular factors that affect expenditure. The socio economic determinants which influenced expenditure were found to be more diverse in urban households which included education, gender and occupation, compared to rural households, where expenditure patterns were largely income driven.

The results are significant for the development of fintech. They postulate that there is no one-size-fits-all solution when it comes to financial technology solutions in the rural and urban markets. Income limitations and occupational nature and household economic vulnerabilities need attention with regard to rural financial inclusion.

In this case study, Jagannarayan and Prasuna (2024) examines how household consumption expenditure on food is influenced by gender (women-led households) in Maharashtra during March 2020. This research investigates the gender difference in food expenses during the COVID-19 Lockdown period, based on data from CPHS. It is found that income, age, gender, education and household size are important factors that affect food expenditure. The study highlights the importance of women-led households in managing household resources and maintaining food security during economic uncertainty.

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This contribution is important in terms of gender and financial inclusion because simply having a bank account is not enough to promote the economic activity of women. Further, it involves having autonomous control over financial resources, decision-making power and access to appropriate financial products.

The study aims to analyze the socio-economic impact of the pandemic on household consumption in Maharashtra by comparing it with the pre-pandemic period.The objective of the study is to assess the socio-economic effects of the pandemic on the consumption of households in Maharashtra and compare it with the pre-pandemic situation. This study employs CPHS data for March 2019, March 2020 and March 2021 to examine the impact of adjusted total income, gender, size of household, level of education, occupation on food, health and non-food expenditure.

The results show that during the recovery period, education and occupation were more salient factors in food expenditure, whereas income and household size were always relevant. Results of the study show that economic resiliency varies among households according to their socio-economic characteristics. This applies to inclusive financial products design as financial support mechanisms and credit assessment need to take into account the variations of income stability, occupation and household responsibilities.

Jagannarayan (2025): Socio-Economic Factors Affecting Household Expenditure – a Study from Maharashtra, March 2025

This work is based on 11,283 households from a data set examining patterns of household expenditure. It takes into account the impact of age, gender, occupation, education, and size of the household on food, health and leisure spending. The results show that income and household size are still significant factors determining food expenditure, and the education, occupation, and demographic status are factors that are relevant in explaining the variation in expenditure patterns.

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The study confirms the role of socio-economic profiling in the study of financial behavior. This profiling can be used to guide the creation of appropriate savings and insurance and credit products for various categories of households and enterprises.

These studies, when taken together, can help to build a picture of digital payment preferences, usage, financial vulnerability, gender-based resource allocation and rural–urban differences. They also highlight a key research priority: linking digital financial services with impactful outcomes like credit availability, savings practices and enterprise viability.

5.1 Payments in Digital Format and Enterprise

Formalisation Digital payment options like UPI, QR code payments and mobile banking have made it easy for small businesses to conduct financial transactions. These systems can lower the need for cash payments, speed up payments and enhance transparency in the transactions.

Digital transaction records can be useful for MSMEs to be able to show the activity of their business and may be used for financial institutions to use in their credit assessment process. This is especially applicable to businesses that don't have a normal financial statement.

The findings from Jagannarayan's research on digital payment preferences and risks (2023) reinforce the importance of convenience, trust and transaction security in encouraging the adoption of digital payment systems.

5.2 Digital Lending and Alternative Credit Assessment

Collateral, a history of documented income and credit history are often needed for a traditional loan. These needs can be a disadvantage to microenterprises and rural entrepreneurs.

Financial information, transaction data and alternative data gathered via consent can be leveraged by technology platforms as tools for credit assessment. Artificial intelligence and machine learning can help lenders to assess the capacity for repayment and determine appropriate borrowers.

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But in order to deliver digital lending, transparency, data protection and responsible underwriting and protection from discriminatory credit decisions need to be part of it.

5.3 Digital Financial Infrastructure

The Digital Public Infrastructure of India offers a significant enabler for financial inclusion.

Aadhaar is helpful for the identity verification and E-KYC process.

Jan Dhan accounts enhance banking access.

The UPI allows for interoperable digital payments.

Account Aggregator provides a layer of service to enable the sharing of financial information with consent.

Digital lending platforms enable better access to technology-driven lending.

DigiLocker helps in accessing digital documents.

The linkage of these systems can help to minimize information gaps and enhance financial services delivery to small enterprises and small and rural customers.

FinTech and Rural Financial Inclusion

To achieve financial inclusion in rural areas, it is important to understand the economic status of rural household, farmers, traders and small entrepreneurs.

The study on household expenditure behaviour between rural and urban areas conducted by Jagannarayan and Prasuna (2024) shows that income and size of the household play an important role in the rural consumption pattern while the urban pattern of consumption has many socio-economic factors.

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The differences have implications for designing rural financial services. Flexible repayment schedules, access to low cost credit, low cost transaction facilities and financial products that are appropriate to irregular or seasonal income may be needed for rural households and enterprises.

FinTech can support:

- E-commerce for agriculture goods and rural trade.
- Digital savings and micro-insurance facilities.
- Access to credit for small traders and agricultural entrepreneurs.
- Self Help Groups and Cooperatives digital transactions.
- Tools for financial management of micro enterprises in rural areas.

But these programs need to be supported by a dependable connectivity, local-language interfaces, easy opportunity for grievances, and financial education programs.

To enhance women's economic empowerment in the financial technology sector

Women's involvement in finance activity is one of the keys to inclusive economic development. Women based micro enterprises are involved in food processing, tailoring, retail shop, household services etc. activities.

The study by Jagannarayan and Prasuna (2024) on the role of women in choosing household expenditure, especially in the case of women-led households in Maharashtra, underscores the significance of gender in the household expenditure decision-making process, especially in times of economic uncertainty. This gives a crucial socio-economic basis for examining women's financial inclusion. Women's capacity to receive business payments, keep financial records and access institutional finance can be enhanced by the use of digital financial services.

However, there are still some obstacles:

- Limited ownership of smartphones.
- Much sharing of smart phones.
- Low digital and financial literacy.

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- Restriction in independent control of bank accounts.
- Security issues and electronic fraud.
- Restrictions on financial decision-making.

6. Major Challenges in Technology-enabled Financial Inclusion

While there has been considerable technological advancement, certain factors still limit financial inclusion.

Digital divide: Lack of internet connectivity and uneven access to smart phones limit access to digital financial services.

Financial literacy: Banking applications and credit products, interest rates and digital transactions are not understood well can lead to suboptimal financial decisions.

Cybersecurity: Phishing, identity theft, fraudulent payment requests and unauthorised transactions jeopardise trust.

Algorithmic discrimination: AI-driven lending tools could lead to discrimination against people who don't have a lot of digital history or do not have regular jobs.

Gender inequality: Women may be able to have financial accounts without having independent control of them.

Affordability: Smaller businesses might be deterred from using digital financial solutions due to the costs of technology and services.

Data privacy: Appropriate consent, security and institutional accountability for digital financial information.

7. Conceptual Framework

The review suggests an integrated framework that consolidates technological adoption, socio-economic characteristics and financial inclusion.

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Technological Enablers

- UPI and Digital payment.
- Mobile banking.
- AI-based credit assessment.
- Digital identity and e-KYC.

Digital lending platforms.

↓

Socio-Economic Determinants

- Financial and employment security.
- Education and literacy in the digital age.
- Financial independence and gender.
- Size and dependancy of the household.

Rural–urban location.

↓

Financial Inclusion Outcomes

- Financial services of the banks.
- Formal saving and insurance.
- Improved payment efficiency.
- Financial transparency.

Increased financial participation.

↓

Development Outcomes

- MSME sustainability.
- Rural entrepreneurship.
- Women's economic empowerment.
- Employment generation.

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- Inclusive economic growth.

Technology adoption and financial inclusion are shaped by socio-economic conditions, as highlighted in the framework. Hence, digital infrastructure needs to be accompanied with the institutional trust, protection and financial competences of the consumers.

8. Recommendations for Policy for Viksit Bharat 2047

Digital infrastructure: Improve internet and digital payment system in remote and unserviced areas.

Financial literacy: Organize organized financial education for MSMEs, farmers, women entrepreneurs and rural households.

Accessibility of MSME credit: Facilitate digital credit products that have low ticket size and flexible repayment options, aligned to MSME's cash flows and repayment capacity.

Gender-inclusive fintech: Promote self-service and targeted financial services to women entrepreneurs.

Cyber security: Improve fraud prevention, notifications on transactions, authentication and consumer grievance-redressal mechanisms.

Responsible AI: Make technology-driven lending decisions fairly, transparently and explainably.

Integration of rural enterprises: Linkage between fintech services and self-help groups, cooperatives, agricultural markets and business networks.

Outcome-based financial inclusion: Assess impacts of financial inclusion in terms of access to affordable credit, savings, insurance and financial resilience, not just on transactions.

9. Research gaps and future research directions

It highlights a number of areas for further research.

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First, the literature on adoption of digital payments and households' consumption requirements is to be extended to the enterprise level financial inclusion. Second, the link among digital transaction histories and true MSME credit authorizations needs empirical research. Third, gender differences in digital financial autonomy need to be further acknowledged, especially in the case of rural women business owners.

Socio-economic evidence from Jagannarayan's research in Maharashtra offers a basis for future research that incorporates income, education, occupation, household attributes and digital financial adoption.

Future research can be done to create a comparative framework between rural and urban settings that explores the impact of digital literacy, trust in fintech, credit access and financial capacity of MSMEs.

10. Conclusion

The potential of FinTech to change financial inclusion goes beyond the scope of enabling access to digital payments, banking services and institutional credit. But, technology is not a complete solution to financial exclusion. Gaps in income, education, and job stability, coupled with gender gaps and poor digital skills, remain an issue for the ability of people and businesses to access the formal financial system.

The work of Nandini Jagannarayan is a valuable socio-economic basis for understanding these issues. Her research work on the payment preferences of digital payments, patterns of expenditure by households, financial decision making by women in rural areas, and the effects of multiple socio-economic factors on financial behavior has shown that financial behavior is shaped by several socio-economic factors.

This review's key point is to put together technological access and economic ability in order to achieve financial inclusion. Digital payments must generate increased financial transparency, digital records must provide opportunities for responsible credit assessment and financial services must support the autonomy of the rural economy and women entrepreneurs.

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However, the vision of India becoming Viksit Bharat 2047 cannot be realized without the growth of fintech development from promoting digital transactions to ensuring sustainable participation in the financial sphere. An inclusive digital financial ecosystem can boost MSMEs, boost rural entrepreneurship and enhance livelihood security while also contributing to balanced economic development.

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